



R&R Weekly Column
By Brunello Rosa



China's National People's Congress Sets Lower Growth Rate and Higher Security Spending Targets

This past weekend, China's 11th National People's Congress convened its annual session, which will continue until March 13th. This Chinese "parliament", with around 3000 delegates, will have to approve a series of key decisions made by the Chinese Communist Party leadership. First and foremost, the assembly will have to re-elect Xi Jinping as President of the Republic; he was already elected, for the third time, as the leader of the Chinese Communist Party (CCP) in October 2022.

Second, a new prime minister and a new government will need to be chosen. It is expected that [Li Qiang will replace Li Keqiang as China's premier](#). Li Qiang is a close Xi associate, who worked with Xi in Zhejiang province in the 2000s, and last year presided over the lockdown of Shanghai as the city's Communist party leader. Li Qiang has recently become [the number two ranked member of the Standing Committee of the CCP's Politburo](#).

Third, together with the Premier, all the government members and key officials of the administration will need to be chosen, including the Governor of the People's Bank of China, the Chinese central bank. It is widely understood that these officials will be chosen from among Xi's loyalists, with very little space left for dissenting voices. [Press reports](#) suggest these loyalists will be chosen within the ranks of local government politicians, who may be less likely to tackle financial speculation than the existing team, which is made up of hawkish technocrats, has been.

Fourth, the assembly will have to ratify the economic growth rate target for 2023, after last year's disappointing 3% (de facto a recession, for Chinese standards), compared to last year's target of 5.5%. This year's target is fixed at 5%, in line with the actual performance of the economy; even if some analysts consider this rate easier to achieve, given the rebound of the economy after the reversal of the zero-Covid policy. Other economic targets set for this year are the creation of around 12m urban jobs, to keep the unemployment rate at 5.5%, with a budget deficit that should not exceed 3% of GDP.

Fifth, military spending is expected to increase by 7.2% in 2023, outpacing the country's 5% GDP growth objective as well as the 7.1% of 2022. (So, this year the gap between military spending growth and GDP growth will be 2.2%, versus 1.6% last year). [As the FT reports](#), "budgeted defence expenditure for 2023 account for 5.7 per cent of total government expenditure, the third annual increase in that share after more than 20 years of continuous reductions." Among China's military planned investments in 2023 will be a third aircraft carrier, destroyers, fighter aircraft and artificial intelligence facilities. In absolute terms, [China's military budget will reach USD 210 billion](#), versus USD 817bn for US military spending. China aims at becoming a global military force by 2027, the 100th anniversary of its People's Liberation Army.

All in all, it is clear that this rubber-stamp assembly will certify Xi completing his grip on the Party and the country. The economic target will be relatively easy for the new government, made up of loyalists, to achieve. The increase in military expenditure will mark the end of the peaceful rise of China towards a role of global leadership. It will have a much more confrontational approach going forward, starting in Taiwan.

Our Recent Publications

☛ [Syria's Post-Earthquake Diplomatic Standing In The Gulf](#), by Gulf State Analytics, 2 March 2023

☛ [Chinese Balloon in US Airspace: A Diplomatic Crisis and Escalation of US-China Relations?](#), by London Politica, 23 February 2023



Looking Ahead

The Week Ahead: EZ QoQ GDP To Stall And YoY GDP To Slow Down; US Non-Farm Payroll To add 200K

In the US, In February, the unemployment rate is seen remaining unchanged at 3.4%. NFPs are expected to increase by 200K (*p*: 517K).

In the EZ, in Q4, GDP is likely to stall on a quarterly basis (*p*: 0.3%) and decelerate by 1.9% y-o-y (*p*: 2.3%). In January, retail sales are expected to contract by 1.8% y-o-y (*p*: -2.8%) and advance by 1.0% m-o-m (*p*: -2.7%).

In the UK, in January IP is expected to shrink by 0.2% m-o-m (*p*: 0.3%) and 4.0% y-o-y (*p*: -4.0%).

The Quarter Ahead: The Ukraine War; EU's Green Deal Derailed Over Combustion Engines; The US Prepare New Rules For China

Ukraine War: Bakhmut. Experts point out that Bakhmut's strategic importance and location is why it is so important for both Russia and Ukraine. According to Ukraine's military sources, a number of attacks have been repelled in the area of eastern Donetsk. The Ukrainian defence of Bakhmut is "under severe pressure" as Russian forces close in. Russia's Wagner group claims that Bakhmut is "practically surrounded" and called on Zelensky to withdraw his troops. In the meantime, Biden and Scholz met to discuss further assistance to Ukraine. Germany asks Switzerland to sell Leopard 2 tanks to the German arms producer, as it would allow European countries to fill gaps in their own stocks.

EU's plan to end sales of combustion engine cars gets into trouble. It is the key part of the European Green Deal. Germany and Italy backed the ban on internal combustion engines by 2035, but now want exemptions to be made for cars that run on "carbon neutral" synthetic fuels. In addition, Poland and Hungary also signalled their opposition to the plan.

The US prepares new rules on investment in China amid security concerns. The Treasury and Commerce departments reported they were considering a regulatory system to address investment in advanced technologies abroad that could pose national security risks.

Last Week's Review

Real Economy: EZ Headline Inflation Fell, Whereas Core Rose; EZ Unemployment Stayed The Same; DM PMIs To Increase Above 50

In the US, In February, according to final estimates, S&P Global Manufacturing and Services PMIs edged up to 47.3 (*c*: 47.8; *p*: 46.9) and 50.6 (*c*: 50.5; *p*: 46.8) respectively. Composite PMI increased too to 50.1 (*c*: 50.2; *p*: 46.8).

In the EZ, in February, the headline inflation rate eased off to 8.6% y-o-y (*c*: 8.2%; *p*: 8.6%), whereas the core inflation accelerated to 5.6% y-o-y (*c*: 5.3%; *p*: 5.3%). The monthly inflation rate rose to 0.8% (*p*: -0.2%). In January, the unemployment rate stayed unchanged at 6.7% (*c*: 6.6%). In February, Economic Sentiment slightly fell to 99.7 (*c*: 101; *p*: 99.8). Still in February, Consumer Confidence recovered only slightly to -19 (*p*: -20.7) as expected. In February, according to final estimates, S&P Global Manufacturing PMI decreased to 48.5 (*c*: 48.5; *p*: 48.8), whereas Services PMI edged up to 52 (*c*: 53; *p*: 50.8). Composite PMI increased to 52 (*c*: 52.3; *p*: 50.3).

In the UK, in February, according to final estimates, S&P Global Manufacturing and Services PMIs are seen increasing to 49.3 (*c*: 49.2; *p*: 47) and 53.5 (*c*: 53.3; *p*: 48.7). Composite PMI rose to 53.1 (*c*: 53; *p*: 48.5).

Financial Markets: Stock Prices Rose; Bond Yields Also Rose; Dollar Edged Down, While Oil And Gold Prices Increased

Market Drivers: Stock market optimism was fueled by a rally from technology titans, as investors believe that the Fed's monetary policy tightening would end soon. As a result, the yields eased from their recent highs and investors consider that the cumulative effect from Fed's hikes is already taking place.

Global Equities: Increased w-o-w (MSCI ACWI, +1.9%, to 639.69). The US S&P 500 index edged up (+1.9% w-o-w, to 4,054.64). In the EZ, share prices were up (Eurostoxx 50, +2.8% w-o-w, to 4,294.80). In EMs, equity prices moved up (MSCI EMs, +1.7%, to 988.03). Volatility fell to 19.4 (VIX S&P 500, 52w avg.: 26.1; 10y avg.: 18.5).

Fixed Income: w-o-w, the 10-year US treasury yields were up (+1 bps to 3.96%). The 2-year US Treasury yields rose (+5 bps to 4.86%). The German 10-year bund yield increased (+15 bps to 2.68%).

FX: w-o-w, the US Dollar Index decreased (DXY, -0.6%, to 104.5; EUR/USD +0.9%, to 1.06). In EMs, currencies fell (MSCI EM Currency Index, +0.5% w-o-w, to 1,675.47).

Commodities: w-o-w, oil prices increased (Brent, +3.8% to 86.0 USD/b). Gold prices rose w-o-w (+3.0% to 1,862.80 USD/Oz).



@RosaRoubini



Rosa & Roubini



Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED

Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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